

Fertiliser Market Update

11 May 2009

Author:

Paul Deane
Rural and Regional Economist
+61 3 9273 6295
Paul.Deane@anz.com

Global outlook supportive of lower prices

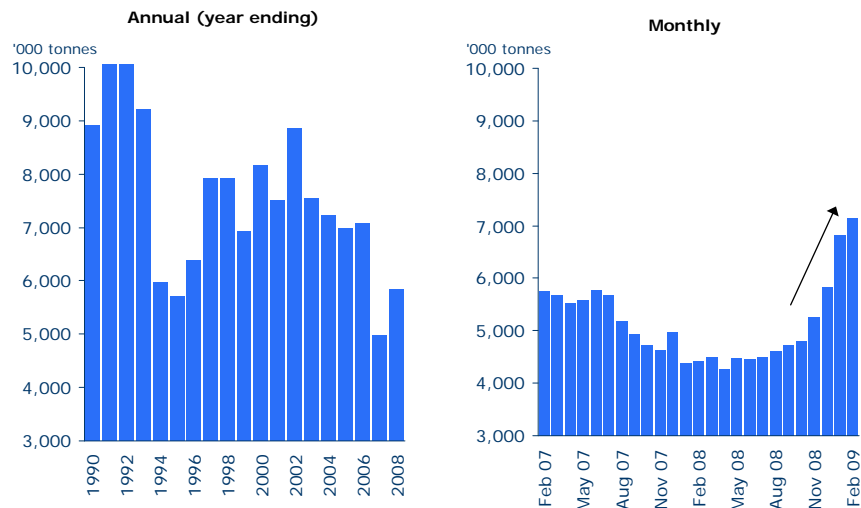
Global phosphate and nitrogen fertiliser prices were largely stable through February, March and into early April. However since mid-April prices have started to fall again.

The USA Gulf price of DAP has fallen by 10%-15% to US\$320 FOB per tonne in the last month, while perhaps more telling, the 3 month forward price has collapsed to US\$275 per tonne, down 28% m-o-m. A similar picture exists for Urea, with granular Urea product originating from the USA and the Middle East easing 9%-15% over the last month.

These latest price falls only confirm that the global supply squeeze on fertiliser, which drove prices to extreme levels in 2008, is now well behind us. This is probably best illustrated by US producer stocks of rock phosphate.

From 1997 to 2006 USA producer rock phosphate stocks averaged 7.6 million tonnes, ranging between 6.9 and 8.8 million tonnes, but by mid-2008 had fallen to just above 4 million tonnes, as the supply squeeze reached its zenith. As of the end of February 2009, stocks have risen to 7.1 million tonnes, a rise of 2.8 million tonnes or 65% in less than 12 months.

In the four months to February 2009, USA rock phosphate stocks have jumped dramatically and are back to similar levels experienced from 1997 to 2006



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When US rock phosphate producers last had stocks at current levels in 2005 and 2006, the global price of DAP was US\$260 per tonne. All else being equal, this implies that the market still has the potential to fall further from the current level of US\$320 per tonne.

From an input cost perspective, comparing the current phosphate market to 2005 and 2006, the price of energy and freight is similar but the price of rock phosphate is considerably higher. Based on the latest US import data, rock phosphate has been trading at around \$US100 per tonne from Morocco, still double the price in 2005 and 2006. Overall however, the trend in rock phosphate prices continues to be bearish, with further falls in rock phosphate likely to only add weight to DAP prices moving below US\$300/tonne over the next 6 months. The other factor which could again weigh on prices in coming months is the Chinese Government's fertiliser export policy. The current high export tax reverts to just 10% in the 'low-season', which runs from 1st June to 31st July 2009 for MAP/DAP and from 1st July to 31st August 2009 for Urea.

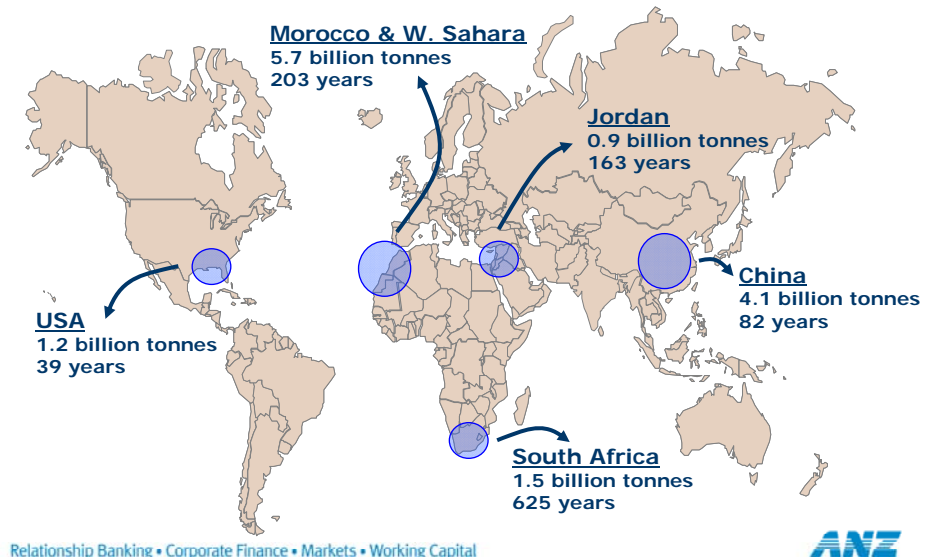
In the longer term, while underlying global demand for fertilisers is expected to continue to grow strongly, supply looks more than capable of meeting this demand.

In terms of phosphate fertiliser, the only significant source of phosphate for manufacturing and use in global agriculture is rock phosphate. So how large are the world's reserves of rock phosphate?

Based on current global reserve estimates from USGS, 15 billion tonnes of economically extractable rock phosphate have been identified. Based on 2008 production/extraction levels, this equates to 90 years of future supply. The two largest reserves identified to date are in Morocco/West Sahara and China (see above) with just 5 countries accounting for 90% of total reserves. For the world's largest exporter of rock phosphate, Morocco, economic reserves are estimated at 5.7 billion tonnes or a reserve life of 203 years based on 2008 mining levels! As for the other major reserve holder, China, it is worth noting that up until 12 months ago China's reserves of rock phosphate were estimated at 6.6 billion tonnes, but this has recently been revised lower to 4.1 billion tonnes or reserves of 82 years.

In terms of supply of rock phosphate over the next 3 or 4 years, significant expansion of mine capacity across the globe is expected. China's rock phosphate capacity is forecast to increase by around 15 million tonnes by 2012/13, while additional capacity of nearly 10 million tonnes each in the Middle East and South America is forecast over the same period. This equates to increased capacity of at least 35 million tonnes. We estimate that even if global demand for rock phosphate grows by 4% per annum in coming years (after a pull-back in 2009), only an additional 20 million tonnes are likely to be needed by 2013.

Major reserves of rock phosphate around the world... total reserves are estimated at 15 billion tonnes or 90 years of supply at 2008 production levels



Australian market

A combination of weaker global fertiliser prices and a stronger A\$ has pushed the import price of DAP/MAP and Urea nearly 20% lower over the last 2 months. Based on ANZ's import parity price series for DAP/MAP, the price at the end of February 2009 was A\$610/tonne, but by the end of April this had fallen to A\$500/tonne, down 18%. The ANZ import parity price for Urea has fallen by 17% over the last 2 months, with the price currently around A\$400/tonne. Note that the ANZ import parity price series does not include wholesaler/retailer margins.

In terms of the current retail price of fertiliser in South Eastern Australia, prices have remained fairly static over the peak sales period for the Australian market. Between February to April 2009, the retail price of DAP/MAP in South Eastern Australia was around A\$840/tonne and A\$610/tonne for Urea. At these levels the price of high analysis phosphate fertilisers is still considerably lower for farmers than for the same time last year. For those farmers in South Eastern Australia purchasing MAP/DAP between February and April last year, the average retail price was A\$1,200/tonne. In the Urea market, current retail prices are similar to the same time last year.

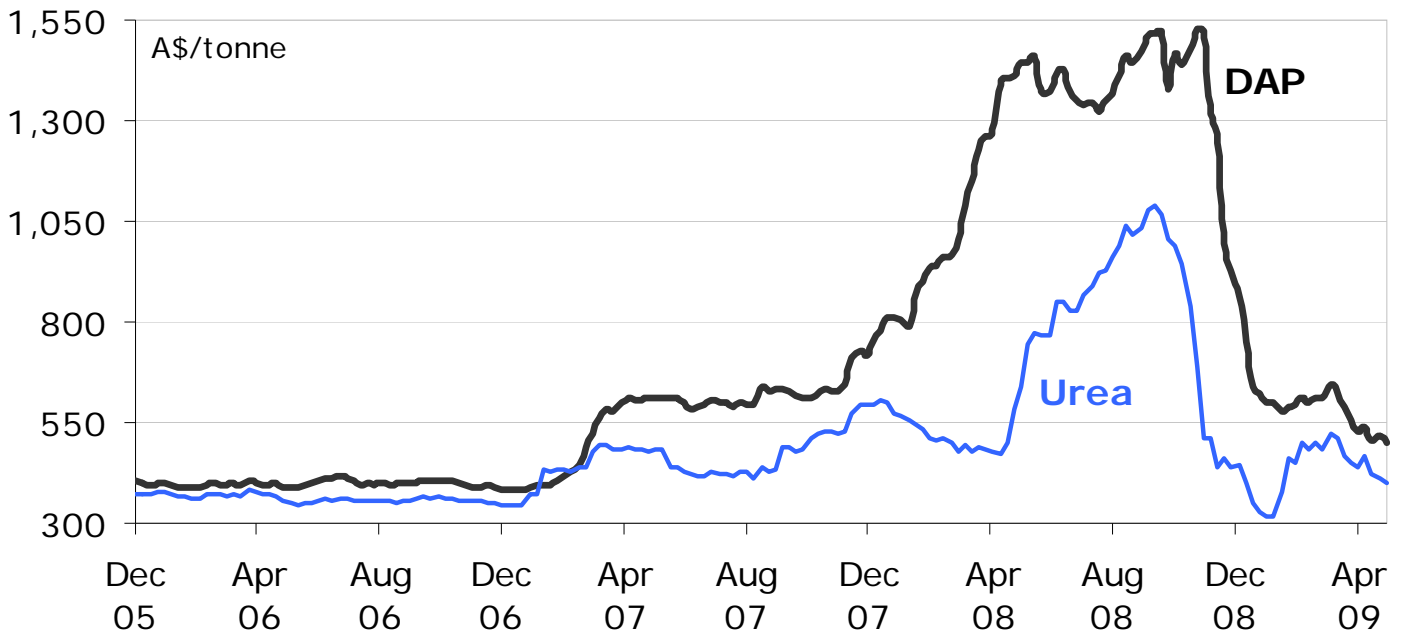
ANZ Australian import parity price series

To illustrate the impact changing global fertiliser prices and currency movements have on Australian import prices, we have constructed an Australian import parity fertiliser price series for DAP and Urea. The ANZ import parity prices calculated are a US Gulf CIF (Cost Insurance Freight) price converted to Australian dollars and so does not include wholesaler/retailer margins.

ANZ Import Parity Price Series

UREA (A\$/t)	Apr 08	May 08	Jun 08	Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09
Month Ending Price	640	765	825	960	1030	985	515	440	320	450	480	440	400
Monthly Change	32%	20%	8%	16%	7%	-4%	-48%	-15%	-28%	+42%	+6%	-8%	-9%
DAP (A\$/t)	Apr 08	May 08	Jun 08	Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09
Month Ending Price	1440	1370	1350	1370	1470	1470	1520	925	600	600	610	530	500
Monthly Change	14%	-5%	-1%	1%	7%	0%	4%	-39%	-35%	0%	+2%	-13%	-6%

ANZ Import Parity Price Chart



Sources

ANZ, Bloomberg, Datastream, USGS

Contacts

ANZ Economics & Markets Research

Saul Eslake	Chief Economist	+61 3 9273 6251	Saul.Eslake@anz.com
Fiona Allen	Business Manager	+61 3 9273 6224	Fiona.Allen@anz.com

Australian Economics and Interest Rates Research

Warren Hogan	Head of Australian Economics and Interest Rates Research	+61 2 9227 1562	Warren.Hogan@anz.com
Katie Dean	Senior Economist	+61 3 9273 1381	Katie.Dean@anz.com
Riki Polygenis	Economist	+61 3 9273 4060	Riki.Polygenis@anz.com
Dr. Alex Joiner	Economist	+61 3 9273 6123	Alex.Joiner@anz.com

Global Markets Credit Research

Jason Hill	Global Markets Credit Analyst	0434 312 356	Jason.Hill@anz.com
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Commodities and Industry Research

Mark Pervan	Head of Commodities Research	+61 3 9273 3716	Mark.Pervan@anz.com
Julie Toth	Senior Economist	+61 3 9273 6252	Julie.Toth@anz.com
Doug Whitehead	Soft Commodity Strategist	+61 3 9273 6684	Doug.Whitehead@anz.com
Paul Deane	Rural Economist	+61 3 9273 6295	Paul.Deane@anz.com

Property and Financial System Research

Paul Braddick	Head of Property and Financial System Research	+61 3 9273 5987	Paul.Braddick@anz.com
Ange Montalti	Senior Economist	+61 3 9273 6288	Ange.Montalti@anz.com
Dr. Alex Joiner	Economist	+61 3 9273 6123	Alex.Joiner@anz.com
Stephanie Wayne	Research Analyst	+61 3 9273 4075	Stephanie.Wayne@anz.com

Foreign Exchange and International Economics Research

Amy Auster	Head of Foreign Exchange and International Economics Research	+61 3 9273 5417	Amy.Auster@anz.com
Tony Morriss	Senior Currency Strategist	+61 2 9226 6757	Tony.Morriss@anz.com
Amber Rabinov	Economist	+61 3 9273 4853	Amber.Rabinov@anz.com

Foreign Exchange and Interest Rates Research (London)

Tim Riddell	Currency and Interest Rate Strategist		Tim.Riddell@anz.com
-------------	---------------------------------------	--	--

Asian Economics Research (Singapore)

Paul Gruenwald	Chief Economist, Asia	+65 6419 7902	Paul.Gruenwald@anz.com
Ivy Tan	Associate Director, Credit Research	+65 6419 7914	Ivy.Tan@anz.com
Tamara Henderson	Director, Currency & Rates Strategy	+65 6216 1845	Tamara.Henderson@anz.com
Joshua Saldanha	Associate Director, Macroeconomics	+65 6216 1838	Joshua.Saldanha@anz.com
Chang Wei Liang	Research Intern, Markets Asia	+65 6216 1838	WeiLiang.Chang@anz.com

New Zealand Economics Research (Wellington)

Cameron Bagrie	Chief Economist, New Zealand	+64 4 802 2212	Cameron.Bagrie@anz.com
Khoon Goh	Senior Economist	+64 4 802 2357	Khoon.Goh@anz.com
Philip Borkin	Economist	+64 4 802 2199	Philip.Borkin@anz.com
Steve Edwards	Economist	+64 4 802 2217	Steve.Edwards@anz.com
Kevin Wilson	Rural Economist	+64 4 802 2361	wilsonk1@anz.com
David Croy	Interest Rate Strategist	+64 4 802 2286	David.Croy@anz.com

Research and Information Services

Marilla Rough	Senior Information Officer	+61 3 9273 6263	Marilla.Rough@anz.com
Manesha Jayasuriya	Publications Coordinator	+61 3 9273 4121	Manesha.Jayasuriya@anz.com

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AUSTRALIA by:

Australia and New Zealand Banking Group Limited ABN 11 005 357 522

100 Queen Street, Melbourne, Victoria, 3000, Australia

Telephone +61 3 9273 6224 Fax +61 3 9273 5711

UNITED KINGDOM by:

Australia and New Zealand Banking Group Limited

ABN 11 005 357 522

40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom

Telephone +44 20 3229 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc. (Member of NASD and SIPC)

6th Floor 1177 Avenue of the Americas

New York, NY 10036, United States of America

Tel: +1 212 801 9160 Fax: +1 212 801 9163

NEW ZEALAND by:

ANZ National Bank Limited

Level 7, 1-9 Victoria Street, Wellington, New Zealand

Telephone +64 4 802 2000

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